Industrial Distribution

December 1984

Hotline:
Distributors prepared for slower growth

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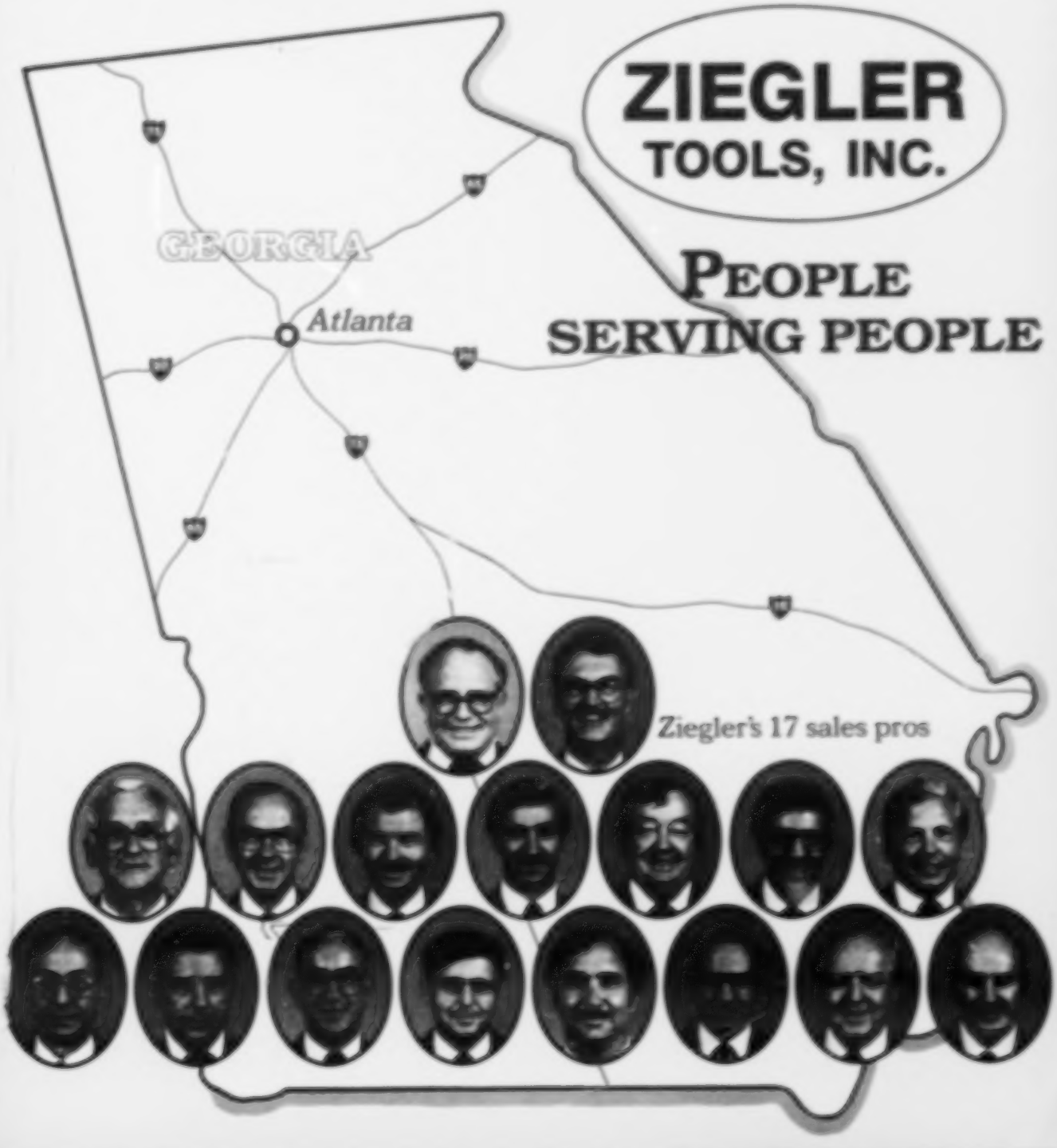

Industrial Distribution

VOL. 73 NO. 12/73rd yr. A TECHNICAL PUBLISHING PUBLICATION DECEMBER 1984

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Today when being competitive means applying the latest techniques to the entire operation, this distributor has molded them around the talents and adaptability of his people. Result: a people-oriented organization, controllable operating costs and consistent growth.

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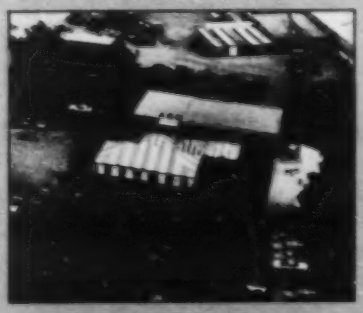

Open house proves strong marketing tool; Double storage area w/mezzanine systems; What it takes to be a good manager; Video cassettes aid marketing effort; reduce inventory w/out losing service.

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INDUSTRY NEWS...

Lendvoyi

recently after a 38-year career with Grandsen. Valentine will continue to serve Grandsen until early 1986 as a general advisor and consultant.

Lendvoyi, 42, began his career working for General Motors in 1960 leaving in 1967 to work in industrial sales. He joined a division of Hall Industries Corp., Warren, MI, in 1973, later transferring to its Chas. A. Strelinger division. □

SIDA 83rd convention meets in San Antonio February 3-5

SAN ANTONIO—The Southern Industrial Distributors Assn. will meet here from February 3-5 for its 83rd Annual Convention.

SIDA president Fred C. Williamson says the theme of this year's convention, "Partners For Profit," reflects the need for ". . .a new way of working together that will make us true partners for profit well into the 21st century.

"Given a clear vision of our needs and a dedication to meeting them," said Williamson, "we can begin to meet our obligation to our industry and in turn to our country."

The keynote speaker at the SIDA convention will be Dr. William C. Freund, senior vice president and chief economist with the New York Stock Exchange. Dr. Freund will discuss his economic expectations and how they will impact manufacturing and industrial distribution.

On Monday, February 4, four concurrent workshops will take place: "Manufacturer/Distributor Communications: A Two Way Street," "Manufacturer/Distributor: Developing A Marketing Plan," "The Factory Field Representative: A Profit Maker/Problem Maker," and "How the Owner/Manager Can Be An Effective Sales Manager."

Three Conference booth Programs are scheduled for the SIDA convention. Programs 1 and 2, held on Monday at 3:00 pm and Tuesday at 9:30 am respectively, require no appointments while Program 3 on Tuesday at 2:30 must be pre-scheduled.

The convention will conclude Tuesday evening with a "Texas barbecue and hoedown."

For information on SIDA's 83rd Convention contact: SIDA, 11 Corporation Square, Suite 200, Atlanta, GA 30329. □

1984 NIBA meeting sounds a theme of future growth

ARLINGTON, VA—From NIBA president, Thomas H. Dunham's "Business Is Good!" introduction in the program to Dominic Olivieri of the Rubber Manufacturers Assn. telling the gathering that, "I find myself in the role of bearing good tidings," the mood at NIBA this year was definitely upbeat.

Analyzing the recovery in the belting industry, Dominic Olivieri, manager of the RMA's management information services, said that growth in various market sectors including steel, agriculture, construction, lumber and mining are fueling the growth.

Making future projections, Olivieri said that "Opportunities for the industry in flat belting are at their brightest point in years," and that 1984 should see an increase over 1983 of 7% overall.

Olivieri also noted that "After having the task for the past four years of standing before you and presenting a rather dismal picture for the future, it is indeed my pleasure to end with the outlook that the downward slide experienced by the belting industry since 1979 has at last reversed and the industry is on the way up." □

DC/UPC systems merger endorsed by ASMMA

PHILADELPHIA—The distribution code (DC) file of 15,000 manufacturers' numbers has been delivered to the *Universal Product Code* (UPC) headquarters for merger into one combined system.

According to Robert Clifton, president of the Distribution Codes Institute, approval of the merger by ASMMA's Board will permit growth of electronic order communications on which a joint ASMMA/NIDA/SIDA Committee is currently engaged in research and development.

Clifton points out that the DC/UPC code is now the preeminent code in use in American business and for international operations through its compatibility with the EAN code in use in the rest of the world. □

Indicators . . .

The *NIDA-SIDA Industrial Distribution Index* appears to have taken a breather in September dropping to 138.9 from 144.7 in August. The 5.8 decrease still leaves the *Index* at its second highest point in 34 months and a full 17.3 points ahead of September 1983. The drop may be a technical adjustment to the large 10.6 rise which occurred between July and August, the greatest in the history of the *Index* . . . The *SIDA Monthly Sales Trend Report* for August increased by 10.87 over July with strength being seen across the board regionally, particularly in SIDA area 2 (FL, GA, SC, and Puerto Rico) which registered an 18.17 gain. The August figure is 18.66 ahead of August 1983 and 23.06 higher on a 1984 year-to-date basis compared with 1983 year-to-date . . . *ASMMA's New Order Index* increased by a healthy 8.8 points or 7.3% in August compared with July. The August figure of 129.1 is 25 points higher than the August '83 figure and the highest figure recorded since August 1981 . . . The American Machine Tool Distributors Assn.'s *Distributor New Order Index* declined by an infinitesimal .1 in August compared to July but still remains 22.6 points ahead of August '83 for a 45% increase . . . National Wholesale Hardware Assn.'s *Hardware Sales Index* improved by .9 in September to 111.8 from 110.9 in August for an adjusted increase of 6.3%. All regions reported increases ranging from a low of 5% in the Great Lakes to a high of 18.8% in the East Central states with the sole exception of the Southwest which registered a 1.3% decline . . . The National Welding Supply Assn. *Welding Supply Index* fell by 7 points in September from August's level 179.9 while still maintaining a 20.4 lead over September '83. Year-to-date '84 figures are 19% ahead of the same period last year . . . The National Assn. of Aluminum Distributors *Quick Pulse Index* of shipments advanced to 123.1 in September from an August level of 116.3. The latest figure represents a rebound for the second month in a row from losses which occurred earlier in 1984 . . . The National Machine Tool Builders' Assn. reports that machine tool orders rose 83% in the first three quarters of 1984 compared to 1983.

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REGIONAL REPORT

September sales continue decline

An erratic period of sales gains and declines over the past several months has evolved into a downtrend with sales gains pared nationally for the second consecutive month. A gain of 9% in the September figures shows a drop of 10 percentage points from August and 20 percentage points from July.

The regions holding up best were New England and the Middle Atlantic where 10% gains over last year were recorded. The weakest regions were Pacific and South Atlantic, barely holding to the plus side with 2% gains, year-to-year.

In area reporting, Upstate New York was strongest, up 17%, and Georgia-Florida weakest, being even with last year.

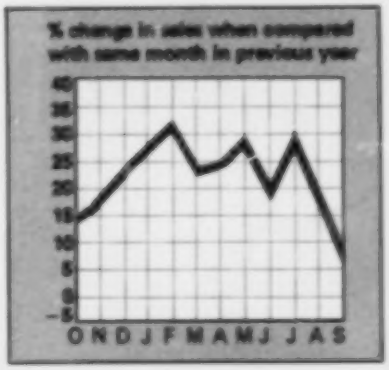
Month-to-month reporting confirms the negative sales trend in September with every region and area negative. The decline nationally was 8%, although some of the regions and areas registered double-digit drops. In the previous Report, all regions/areas were in the plus column, except West South Central.

The only figures still holding well are the first 9 months of '84 compared to '83. A gain of 20% nationally compares with 25% in August, 26% in July and 24% in June. Because these figures are cumulative, a downward trend in sales isn't likely to be sharp enough to immediately affect the monthly totals.

For the first time prior to the recession, receivables (for general line distributors) have broken under the 40-day mark, settling at 39 against last year's 41. □

RECEIVABLES*	Sept. '84 Gen.	Sept. '84 Spec.	Sept. '83 Gen.	Sept. '83 Spec.
New England	43	50	42	48
Middle Atlantic	44	47	41	45
South Atlantic	36	38	34	36
East North Central	38	45	37	41
East South Central	39	—	44	—
West North Central	—	—	—	—
West South Central	—	41	—	47
Mountain	29	—	47	—
Pacific	42	42	41	42
National	39	44	41	43

*Average days outstanding



Sales trend downward in September . . .

SALES BY REGIONS (% change)	Sept. '84 vs August '84 Gen.	Spec.	Both	Sept. '84 vs Sept. '83 Gen.	Spec.	Both	1st 9 mos. '84 vs 1st 9 mos. '83 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−4	−9	−7	+16	+7	+10	+19	+22	+21
Connecticut	−2	−4	−3	+20	+10	+16	+26	+9	+20
Massachusetts	−5	−10	−9	+11	+6	+8	+15	+25	+21
MIDDLE ATLANTIC: NY, NJ, PA	+11	−14	−5	+19	+4	+10	+17	+24	+21
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	+4	−14	−4	+32	+2	+17	+24	+26	+25
Pennsylvania	+8	−20	−9	+6	−2	+2	+13	+24	+19
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	−12	−10	−11	−3	+4	+2	+17	+11	+13
SC, VA, WV	—	—	—	—	—	—	—	—	—
Georgia-Florida	−3	−10	−9	−10	+3	0	+7	+19	+16
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	−13	−10	−11	+5	+10	+9	+12	+27	+23
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	−8	−13	−12	0	+12	+10	+16	+36	+32
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−19	−8	−14	0	+24	+10	+21	+41	+29
Ohio	—	0	—	—	+17	—	—	+22	—
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	—	—	—	—	—	—	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−16	—	—	−6	—	—	−4	—	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	—	−12	—	—	−12	—	—	+17	—
Texas	—	−12	—	—	−12	—	—	+17	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	−1	—	—	−5	—	—	+3	—	—
PACIFIC: CA, OR, WA	−2	−9	−4	+28	+14	+2	+22	+18	+21
L.A.-San Diego	—	−5	—	—	+11	—	—	+11	—
Oregon-Washington	−20	−16	−19	+10	+10	+10	+22	+12	+17
U.S. TOTALS	−5	−11	−8	+15	+5	+9	+18	+21	+20

HOTLINE

Distributors prepared for slower growth

In its annual survey of distributors *ID* found that most expect the torrid pace of sales to slow in 1985 to more traditional levels

NEW YORK—Armed with the latest computer-generated models and the largest data base available, economists are still finding that economic forecasting can be as much an exercise in speculation as a science.

The projections of economists reviewed by *ID* indicate that, although working with identical data, they are arriving at widely divergent conclusions concerning the state of business and industry in the coming year.

Addressing a group of inventory specialists recently, Dr. Michael K. Evans, a Washington economist acknowledged that economic forecasting has become, in his words, "more precarious and generally less accurate."

Discussing the frequent lack of agreement among economists, William H. Holbrook, president of Vonnegut Industrial Products in Indianapolis, and himself a Harvard MBA with a degree in economics, tells the following story:

Every year the Dean of the Kennedy School of Government at Harvard addressed the incoming Freshman class. His theme was always the same. He told them that on any economic question you can think of, you can get opinions from zero to 360 degrees from economists. All of them equally learned, equally experienced and equally regarded. But only one of their positions can be right. Which one it is, said the Dean, nobody knows.

The Dean also likened economists today, to doctors 100 years ago and said it was statistically demonstrable that if you were ill and put yourself in the hands of a doctor a century ago, your chances for survival were less than if you ignored the doctor and let nature take its course. Economists, said the Dean, are in about the same position as doctors were 100 years ago.

Economic forecasting which is highly conjectural at the best of times is particularly speculative for 1985 with so many seemingly contradictory economic phenomena taking place.

According to a recent study of consumer confidence by New York's Conference Board, consumer confidence remains high with only 16.3% expecting there to be fewer jobs in the first quarter of 1985.

Another Conference Board study, however, states that "The current economic recovery is showing signs of cooling off in most major industrial countries, with the most pronounced slowdown in the United States."

The report goes on to note that the leading index in the U.S. is advancing at annual rate of only 2%, "down sharply from 10% three months earlier and 15% at the beginning of the year."

And a study by New York economist, Dr. Pierre Rinfret, is positively ecstatic. Releasing the results of his annual capital expenditures survey, Dr. Rinfret predicts that in 1985, U.S. industry will surpass 1984's strong spending by 11.4%, which in turn exceeded 1983 levels by 13.2%.

'Customers are looking for engineering ability to help them solve their problems rather than simply order takers.'

—*Muth*

"Reflecting the strong rebound in capital goods demand," notes Dr. Rinfret, "the nonelectrical machinery subsector, led by machine tools and construction equipment, anticipates a rate of increase that will be about five times greater in 1985 than in 1984."

American Production & Inventory Control Society economist Evans, however, is not so sanguine. Taking aim at "several bemused economists who generally claimed that the economy could continue to expand rapidly even in the face of high and sharply rising interest rates," Evans sees the economy entering a "pause."

When this happens, says Evans, growth turns sluggish for two or three quarters. After that, the economy generally rebounds or, if interest rates have not declined during the pause, "may head back into another recession. The economy has now entered the slowdown phase," Evans stresses ominously.

What's a distributor to do?

In a survey of distributors from coast to coast and from north to south, *ID* found that there existed a feeling of guarded optimism combined with great uncertainty about the 1985 economic outlook.

For example, Jack Muth, president of Delta Industries, Inc., a Portland, OR, distributor, said that although last year was the first in which his firm has been profitable since 1981, he expects the recent upturn to continue.

"People are improving their systems and updating their equipment," notes Muth, "but it's on a more competitive and selective basis. Customers are looking for engineering ability to help them solve their problems and provide them with cost effective equipment, rather than simply order takers.

"Years ago," said Muth, sounding what was to become a recurring theme, "customers were only interested in the initial cost. Now they're interested in the total picture and what it's going to cost to operate over a period of time."

Muth, who operates with 11 employees compared with 42 in 1980 notes that "When you solve problems, you can do well."

At the other end of the country and on the other side of the spectrum, Charles J. Houston, Jr., executive vice president of Industrial Suppliers of Worcester, Inc., a Massachusetts distributor, notes that "We're about 15% ahead of last year but I don't have any sense of confidence that 1985 is going to be a strong year."

While stating that the firm "likes" to register 20% increases per year, Houston says, "We expect to be 10-15% ahead of 1984 if our sales promotions work well. Of course," he adds wistfully, "we don't have inflation anymore to build our sales that extra 8-10%."

Houston also points out that Worcester, MA, is experiencing an influx of high-tech companies overflowing from the Boston area, which he feels, has been a catalyst for growth.

Reporting from Jackson, MS, Van A. Brocato, president of Mississippi Bearing, Inc. is looking for a 15% increase in 1985 as opposed to the 20% he experienced in 1984.

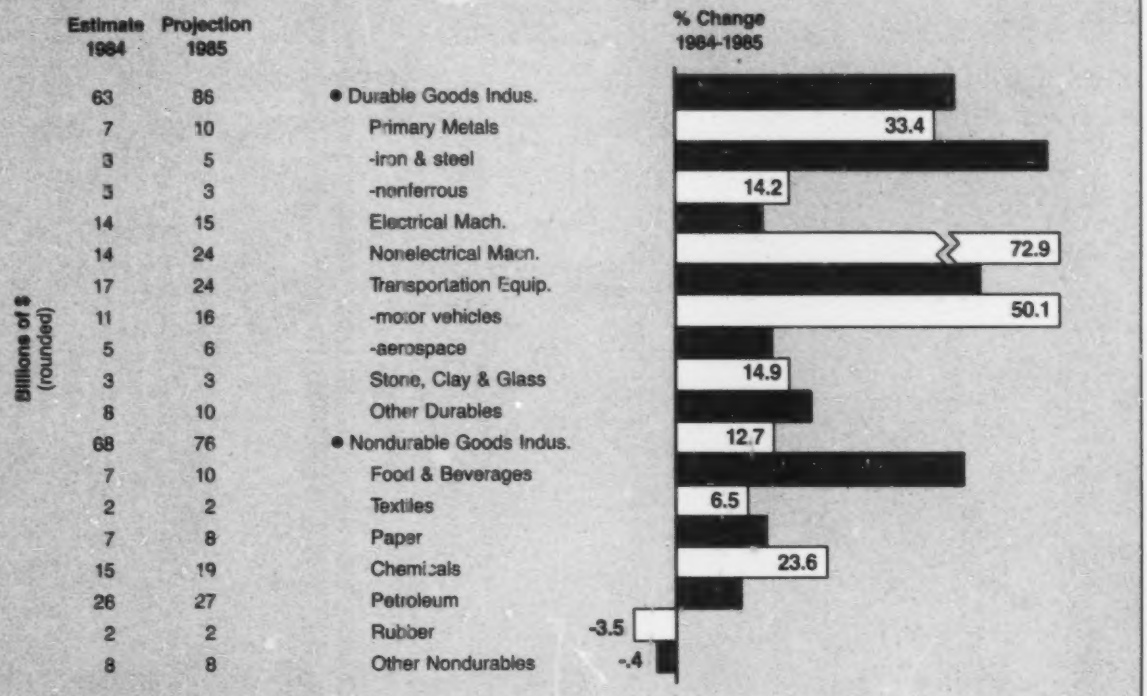
"The dollar value of each order has only increased by 5%," emphasizes Brocato, "but we're doing more business overall."

Up "north" in Detroit, Bill Cornett, general manager of Smith Welding Supply Equipment, says that he is "guessing" that business will be up 10-12% in 1985, adding that distributors may have to redefine what they consider *normal* business.

"We keep talking about getting back to *normal*," states Cornett, "but if by normal we mean what we were enjoying before the recession, we may have to settle for 80% of

Projected changes in manufacturing capital spending

for durable and nondurable goods industries



Estimate: Dept. of Commerce/Source: Rinfret Associates, Inc., New York

the old levels and that might be the new norm."

While noting that in the Detroit area, construction has been weak and "what happens with auto sales is anyone's guess," Cornett stresses that "We're not back up to 1979 yet, but we're close."

'We may have to settle for 80% of the old levels and that might be the new norm.'

—Cornett

Rod Rossman, vice president marketing with Hose and Rubber Supply in Casper, WY agrees with Cornett's prognosis saying "In 1984 we've grown about 15% over 1983 and we see more of the same in 1985. And our figures are based on business slowing down."

Rossmann also notes that his firm is only six years old and "in the first five we experienced a 40% growth rate so things are pretty slow for us." He claims that 1982 "terrible" and the company lost much of its growth "and we're still not back to pre-'82 levels but we're getting close to it."

Sounding one of the few notes of genuine pessimism encountered during this survey, R.P. Barrett, vice president of Tri-Tex Machine & Tool Company in Houston pointed out that because his business is tightly tied to the oil industry, "Until things start moving, we're going to stay where we've been for the last year-and-a-half and it's been awfully slow although I think we've definitely bottomed out.

"I'd like to think there's going to be an improvement," says Barrett, "but there's too much shakiness worldwide in the oil industry.

"Two years ago we shut down our Dallas operation, we shut down our Beaumont operation and we sold our San Antonio store so we're back to a one-house operation in Houston."

A 15-20% increase is also the projection of Jim Johnston, Jr., vice president of Johnston Industrial Supply, Inc. located in Fresno, CA.

According to this cutting tool distributor, a flat 1983 was followed by an increase of 30-35% in 1984. "More businesses have come to Fresno which has always been a farm community and the farmers ride such an up and down tide that it can really hurt sometimes," indicates Johnston, "but we're looking for a healthy increase in 1985."

And finally, Ronald R. Becker, president of Becker Equipment Co., a Wyomissing, PA distributor, speculates that, "We're looking at 1985 being pretty active through the first quarter and then dropping off after that. I'd expect a decrease of as much as 25% next year."

He also adds, however, that since May of '84, "Business has been very, very active," but qualifies that by pointing out that 1983 was not a particularly profitable year.

Located in the Reading steel area of Pennsylvania, Becker says "From various businesses becoming a little busier recently, our business has increased as well."

With the memories of the "dark days" of 1981 and 1982 still etched indelibly in their memories, distributors view the projected increases of anywhere from 10-20% with positive euphoria. As Bill Cornett of Smith Welding Supply in Detroit pointed out, it's all a question of how you define normal.

Doug Harper